

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name MILAN AREA FIRE DEPARTMENT	County WASHTENAW
Fiscal Year End 06/30/06	Opinion Date 09/14/06	Date Audit Report Submitted to State 11/21/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

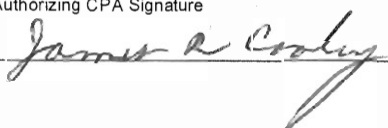
ST 2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) COOLEY HEHL WOHLGAMUTH & CARLTON, PLLC		Telephone Number 734-241-7200	
Street Address ONE SOUTH MONROE STREET		City MONROE	State MI
		Zip 48161	
Authorizing CPA Signature 	Printed Name JAMES R. COOLEY, CPA		License Number 1101005761

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

ANNUAL FINANCIAL REPORT
June 30, 2006

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

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June 30, 2006

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Independent Auditor's Report

Executive Committee
Milan Area Fire Department
Milan, Michigan 48160

We have audited the accompanying basic financial statements of the Milan Area Fire Department as of and for the fiscal year ended June 30, 2006. These basic financial statements are the responsibility of the Milan Area Fire Department Executive Committee. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Milan Area Fire Department as of June 30, 2006 and the results of its operations for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the other required supplementary information on pages 2 through 5 and on page 18, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Cooley Hehl
Wohlgamuth & Carlton*

September 14, 2006

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2006

Using this Annual Report

This section of the Milan Area Fire Department Executive Board annual financial report presents the discussion and analysis of the Fire Board's financial performance for the fiscal year ended June 30, 2006. Please read this report in conjunction with the financial statements that follow this section.

This annual report consists of three parts-*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Fire Department.

- The *government-wide financial statement* provides both *long-term* and *short-term* information about the Fire Department's *overall* financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Fire Department as a whole and present a longer-term view of the Fire Department's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.
- The Statement of Revenues, Expenditures and Changes in Fund Balances provides information on the Fire Department's operations under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Fire Department's sources and uses of funds.
- The reconciliation of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2006

Condensed Financial Information

The table below compares key financial information of the government-wide financial statements in a condensed format between the current year and the prior year:

	<u>Net Assets</u>	
	<u>2006</u>	<u>2005</u>
Current assets	\$499,122	\$397,484
Capital assets, net	<u>404,620</u>	<u>439,597</u>
Total assets	<u>903,742</u>	<u>837,081</u>
Current liabilities	<u>23,623</u>	<u>10,339</u>
Total liabilities	<u>23,623</u>	<u>10,339</u>
Net assets:		
Invested in capital assets	404,620	439,597
Restricted for capital outlay	<u>475,499</u>	<u>387,145</u>
Total net assets	<u>\$880,119</u>	<u>\$826,742</u>
	<u>Changes in Net Assets</u>	
Revenue:		
Charges for services	\$111,955	\$106,176
Operating contributions	231,784	219,332
Capital contributions	74,481	45,000
Grants	-	2,084
Other capital contributions for		
fire truck	6,810	-
Other	<u>11,130</u>	<u>12,561</u>
Total revenue	436,160	385,153
Expenses - Fire Department operations	<u>382,783</u>	<u>365,163</u>
Change in net assets	<u>\$ 53,377</u>	<u>\$ 19,990</u>

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2006

The Fire Department as a Whole

- The Milan Area Fire Department was established on July 1, 1980 by an agreement between the City of Milan, London Township, Milan Township, and York Township. The terms of this agreement were replaced with an agreement effective January 1, 2003. This agreement is intended to remain in full force and effect until June 30, 2007.
- The Fire Department's net assets increased by \$53,377 this year compared to \$19,990 in the prior year.
- The Fire Department's primary source of revenue is from contributions received from four different municipalities based on a formula derived from their relative state equalized values, square miles, populations, miles of roadway, and number of dwellings.
- Personnel, training and dispatch services continue to be the Fire Department's most significant expense, representing 64 percent of the Fire Department's total expenses. More fire runs and training programs contributed to an increase of \$34,351.
- Depreciation expense of \$34,977 represents approximately nine percent of the Fire Department's total expenses. The Fire Department upgrades or replaces equipment after inspections indicate it has reached its full useful life or needs to be replaced due to safety issues. In the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance a decrease in total expenses between the prior year and the current year are due primarily to a reduction in small equipment purchases.

Fire Department Budgetary Highlights for 2005-2006

- The 2005-2006 budget reflected a reduction in amounts contributed for equipment purchases and capital outlays from \$231,000 to \$74,481.
- The Fire Department's small equipment purchases include the purchase of various items that were not capitalized due to the Fire Department's capitalization threshold of \$5,000.
- Due to unexpected changes in dispatch services, scheduled maintenance, and capital outlays there were several variations between the Fire Department's original and final budget. Also, there was a significant variation between the final budget and actual results for training of \$2,290. These variations will not have an effect on the Fire Department's future services or liquidity. As a result of these variations, it was necessary to issue a refund to the municipalities in the amount of \$4,984 to reflect operating fees billed in excess of operating expenses. This excess does not include interest income and donations received for a new fire truck which has been added to net assets restricted for capital improvement.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2006

Fire Department Budgetary Highlights for 2005-2006 (Concluded)

Next Year's Funding (2006-2007)

- Next year's funding will reflect the elimination of capital outlays for equipment in the amount contributed for equipment purchases from \$4,481 to \$-0- and an increase for capital outlays for vehicles from \$70,000 to \$100,000.
- In place of capital outlays for equipment purchases, small equipment purchases will now be budgeted for with operating expenses to properly reflect the Fire Department's capitalization policy.
- The total budgeted operating expenses less amounts budgeted for fire run wages, in the amount of \$280,543 will be billed quarterly to the four municipalities based on the percentages derived from current state equalized values, square miles, populations, miles of roadway, and number of dwellings. The percentages for each unit of government are as follows: the City of Milan - 42.34%, York Township - 22.13%, Milan Township - 15.74%, and London Township - 19.79%.
- Any amount of budgeted operating expenses which goes unused will be credited to the municipalities in the beginning of the next fiscal year. Conversely, actual operating expense in excess of operating revenues will be charged to the municipalities in the next fiscal year. Any amounts due to or from the municipalities will be accrued as of the end of the year to eliminate any excess of revenues over expenditures or excess expenditures over revenues.
- The Fire Department expects to accept delivery on a new pumper/tanker fire truck with a cost of \$379,667. The cost of the new fire truck has been appropriated from donations received and capital contributions set aside by the Executive Committee as Reserved for Capital Improvement.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Current assets:	
Cash	\$435,839
Due from other governmental units - local	29,481
Prepaid expenses	33,802
Total current assets	499,122
Noncurrent assets:	
Capital assets, net of accumulated depreciation	404,620
Total Assets	\$903,742
Liabilities	
Current liabilities:	
Accounts payable	\$1,695
Accrued payroll	16,944
Due to other governmental units - local	4,984
Total current liabilities	23,623
Total Liabilities	23,623
Net Assets	
Invested in capital assets:	
City of Milan	169,257
Milan Township	74,044
York Township	103,056
London Township	58,263
Total invested in capital assets	404,620
Restricted for capital improvement:	
City of Milan	200,706
Milan Township	83,573
York Township	114,613
London Township	76,607
Total restricted for capital improvement	475,499
Total net assets	880,119
Total Liabilities and Net Assets	\$903,742

(See accompanying notes to financial statements)

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Statement of Activities
Year Ended June 30, 2006

Function/Program	Expenses	Program Revenue			Net Revenue and Change in Net Assets
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities
Governmental activities:					
Fire department services/operations	<u>\$382,783</u>	<u>\$111,955</u>	<u>\$231,784</u>	<u>\$81,291</u>	\$42,247
General Revenue:					
Interest					7,063
Donations					1,094
Other revenue					<u>2,973</u>
Total General Revenue					<u>11,130</u>
Change in Net Assets					53,377
Net Assets - Beginning of Year					<u>826,742</u>
Net Assets - End of Year					<u>\$880,119</u>

(See accompanying notes to financial statements)

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

General Fund
Balance Sheet
June 30, 2006

Assets

Cash	\$435,839
Due from other governmental units - local	29,481
Prepaid expenses	33,802
	<hr/>
Total Assets	\$499,122
	<hr/> <hr/>

Liabilities and Fund Balances

Liabilities

Accounts payable	\$1,695
Accrued payroll	16,944
Due to other governmental units - local	4,984
	<hr/>
Total Liabilities	23,623

Fund Balances

Reserved:	
Capital improvement	475,499
	<hr/>
Total Fund Balance	475,499
	<hr/>
Total Liabilities and Fund Balance	\$499,122
	<hr/> <hr/>

(See accompanying notes to financial statements)

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

General Fund
Reconciliation of Fund Balance to Net Assets
June 30, 2006

Total Fund Balance	\$475,499
Amounts reported in the statement of net assets (page 6) are different because:	
Capital assets used in governmental activities are not financial resources, and are not reported in the funds	846,380
Accumulated depreciation on capital assets does not represent a current outflow of resources and therefore is not recorded in the funds	<u>(441,760)</u>
Total Net Assets	<u><u>\$880,119</u></u>

(See accompanying notes to financial statements)

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2006

Revenues

Intergovernmental	
Operating contributions	\$231,784
Charges for services	111,955
Donations	1,094
Other revenue	2,973
Total Revenues	347,806

Expenditures

Bookkeeper	15,125
Business meetings, training and mutual aid wages	11,311
Fire run wages	105,385
Officers' wages	24,780
Dispatcher - traffic control	24,750
Payroll preparation	776
Payroll taxes	13,074
Gas and oil	5,285
Supplies-office	3,542
-other	3,708
Audit	3,300
Attorney	1,755
Medical exams	1,472
Telephone	1,811
Insurance	35,899
Pagers and cell phones	5,091
Utilities	11,476
Building maintenance	2,346
Vehicle maintenance	9,457
Equipment maintenance	14,357
Radio maintenance	3,290
Equipment check and housekeeping	2,000
Rent	16,643
Training	28,995
Miscellaneous	1,706
Small equipment	472
Total Expenditures	347,806

Excess of Revenues over Expenditures

0

Other Financing Sources

Intergovernmental capital contributions	74,481
Interest	7,063
Other capital contributions for fire truck	6,810
Total Other Financing Sources	88,354

Net Change in Fund Balances

88,354

Fund Balance - Beginning of Year

387,145

Fund Balance - End of Year

\$475,499

(See accompanying notes to financial statements)

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
Year Ended June 30, 2006*

Net Change in Fund Balance	\$88,354
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation	<u>(34,977)</u>
--------------	-----------------

Change in Net Assets	<u>\$53,377</u>
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(See accompanying notes to financial statements)

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Notes to Financial Statements
Year Ended June 30, 2006

Note 1 Reporting Entity

The Milan Area Fire Department was established July 1, 1980 by an agreement dated March 20, 1980 between the City of Milan, London Township, Milan Township, and York Township, all located in the Counties of Monroe and Washtenaw. During May, 1990, the units of government involved in the Milan Area Fire Department signed an Amended Agreement which was effective July 1, 1990. The terms of this Amended Agreement were intended to remain in full force and effect until June 30, 2000. The units of government involved with the Milan Area Fire Department signed a letter to extend the Amended Agreement to June 30, 2003. Effective January 1, 2003, this agreement was replaced with an agreement intended to remain in full force and effect to June 30, 2007. This Agreement provides the means for operating and financing the Milan Area Fire Department. The Fire Department is governed by an Executive Committee consisting of the Chief Executive of each of the participating units together with one additional member of the governing body from each unit. The purpose of the Fire Department is to provide fire protection to the City and Townships in accordance with the authorization of Act 33, Public Acts of Michigan, 1951.

In accordance with the provisions of NCGA Statement 3 and subsequently given authoritative status by the Governmental Accounting Standards Board (GASB) in its Statement I, the Fire Department is not considered to be part of any other governmental entity for financial reporting purposes. The criteria established by NCGA for determining the organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public services, and special relationships. Oversight responsibility considers the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public services. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens. On this basis, the financial statements of certain other entities are not included in the financial statements of the Milan Area Fire Department.

Note 2 Summary of Significant Accounting Policies

The accounting policies of the Milan Area Fire Department conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant accounting policies.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Fire Department's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Fire Department's activities
- A change in the fund financial statements to focus on the major funds

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Notes to Financial Statements
Year Ended June 30, 2006

Note 2 Summary of Significant Accounting Policies (Continued)

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the Fire Department are prepared in accordance with accounting principles generally accepted in the United States of America. The Fire Department's reporting entity applies all relevant GASB pronouncements. The Fire Department also applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless they conflict with GASB pronouncements. The Fire Department's basic financial statements include both government-wide (reporting the Fire Department as a whole) and fund financial statements. Both statements categorize primary activities as governmental only. The Fire Department does not have any business-type activities.

Government-Wide Financial Statements

The Government-Wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. *Governmental activities* normally, are supported by intergovernmental revenues.

The Statement of Net Assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligation. The Fire Department's net assets are reported in two parts - invested in capital assets, and restricted for capital improvement. The Fire Department did not have any long term debt or obligations during 2005 - 2006.

The Statement of Activities demonstrates the degree to which the expenses of the Fire Department are offset by revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) Charges to local units who use or directly benefit from goods, services, or other privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and donations are not included among program revenues but are properly reported as general revenues.

Fund Financial Statements

Governmental Fund Financial Statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the Fire Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as claims and judgments, are recorded only when payment is due.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Notes to Financial Statements
Year Ended June 30, 2006

Note 2 **Summary of Significant Accounting Policies (Concluded)**

Fund Financial Statements (Concluded)

The operations of the Milan Area Fire Department are accounted for in one general fund with its own set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

GOVERNMENTAL FUNDS

General Fund - The General fund is the general operating fund of the Fire Department. It is the only fund used to account for all financial resources and is presented as a major fund.

B. Deposits

The Fire Department has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Deposits are carried at cost.

C. Receivables

All receivables are recorded net of any uncollectible amounts.

D. Capital Assets

Capital assets are defined by the Fire Department as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical costs. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Equipment	5 - 15 years
Vehicles	20 years

E. Budget

A budget is adopted by the Fire Department Executive Committee. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect the actual revenues and expenditures for this fund. The budget is adopted at the activity level. The executive committee is authorized to transfer budget amounts within an activity and to make authorized amendments to the original approved budget. Appropriations unused at June 30, are not carried forward to the following fiscal year. Any budgeted operating expenses that are unused are credited to the various governmental units at the beginning of the next fiscal year.

F. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Notes to Financial Statements
Year Ended June 30, 2006

Note 3

Deposits

Statutes authorize the Fire Department to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. Banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposits with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency. Public funds may not be deposited in financial institutions located in states other than Michigan.

The Fire Department believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, and since State of Michigan legislation does not require that all deposits be collateralized, it is impractical to insure all bank deposits. As a result, the Fire Department evaluates each financial institution with which it deposits Fire Department funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Milan Area Fire Department Executive Board has adopted an investment policy and has authorized three depositories: Chase, N.A., Monroe Bank & Trust, and LaSalle Bank.

Interest rate risk. The Fire Department's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Fire Department will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the Fire Department's investment policy.

Concentration of credit risk. The Fire Department does not have limits on the amount the Fire Department may deposit in any one issuer.

Custodial credit risk. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Fire Department's deposits may not be returned or the Fire Department will not be able to recover the collateral securities in the possession of an outside party. As of June 30, 2006, the Fire Department had a carrying amount of \$435,839 invested in checking accounts, savings accounts, and money markets. The bank balances totaled \$443,870. The Fire Department's deposits are insured by the FDIC in the amount of \$285,327, with uninsured deposits of \$158,543. The Fire Department's deposits are at institutions with an established record of fiscal health and service. The Fire Department board approves and designates a list of authorized depository institutions. The Fire Department's policy does not address deposit risk.

The following is a summary of these deposits:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Category 1:		
FDIC insured	\$277,296	\$285,327
Category 3:		
Uninsured and uncollateralized	<u>158,543</u>	<u>158,543</u>
	<u>\$435,839</u>	<u>\$443,870</u>

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Notes to Financial Statements
Year Ended June 30, 2006

Note 3 Deposits (Concluded)

Foreign currency risk. The Fire Department is not authorized to invest in investments which have this type of risk.

Note 4 Capital Assets

The following is a summary of the changes in capital assets of the Fire Department for the fiscal year ended June 30, 2006:

	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>
Equipment	\$ 49,406	\$ -	\$ -	\$ 49,406
Vehicles	<u>796,974</u>	<u>-</u>	<u>-</u>	<u>796,974</u>
	846,380	-	-	846,380
Less: Accumulated Depreciation	(406,783)	(34,977)	<u>-</u>	(441,760)
Net Capital Assets	<u>\$439,597</u>	<u>\$(34,977)</u>	<u>\$ -</u>	<u>\$404,620</u>

Note 5 Intergovernmental Contributions

The Fire Department receives a substantial amount of its revenue in the form of operating and capital contributions from the participating municipalities. The amount of these contributions are calculated annually on a predetermined percentage basis of the Fire Department's budget. These percentages are calculated on the basis of State Equalized Value (70%), service area in acres (5%), population as determined by latest decennial census (10%), miles of roads (5%), and dwelling units, commercial units, industries, schools, and churches (10%).

The following is a summary of amounts billed to the local municipalities for the 2005 - 2006 fiscal year:

<u>Unit</u>	<u>Percentages</u>	<u>Operating Contributions</u>	<u>Capital Contributions</u>
City of Milan	41.73%	\$ 96,723	\$31,081
Milan Township	16.79%	38,917	12,505
London Township	18.83%	43,645	14,025
York Township	22.65%	<u>52,499</u>	<u>16,870</u>
		<u>\$231,784</u>	<u>\$74,481</u>

Note 6 Lease

The Milan area Fire Department leases the fire station from the City of Milan. Under the lease, the Fire Department shall assume and pay all expenses necessary for the operation of the fire station. Rent expense for the fiscal year ended June 30, 2006 was \$16,643. This lease is in effect until June 30, 2007.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

Notes to Financial Statements
Year Ended June 30, 2006

- Note 7 Dispatching Services
The City of Milan provides dispatching services for the Milan Area Fire Department. Dispatching expense for the fiscal year ended June 30, 2006 was \$24,750.
- Note 8 Fund Balance-Reserved for Capital Improvement
Any fund balance not otherwise reserved has been set aside by the Executive Committee as Reserved for Capital Improvement.
- Note 9 Risk Management
The Milan Area Fire Department is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries for which the Fire Department carries commercial insurance.
- Note 10 Related Party Transaction
As stated in Note 6 and Note 7, the Fire Department leases the fire barn and obtains dispatching services from the City of Milan. The City of Milan maintains an ownership interest in the Fire Department.
- Note 11 Subsequent Events
On December 7, 2005 the Fire Department entered into an agreement to purchase a new fire truck with a purchase price of \$379,667. Payment will be due upon delivery approximately in September 2006. The cost of the new fire truck has been appropriated from donations received and capital contributions set aside by the Executive Committee as Reserved for Capital Improvement.

MILAN AREA FIRE DEPARTMENT
MILAN, MICHIGAN

General Fund
Required Supplementary Information
Budgetary Comparison Schedule
Year Ended June 30, 2006

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
Revenues				
Intergovernmental				
Operating contributions	\$220,298	\$239,347	\$231,784	(\$7,563)
Charges for services	110,000	110,000	111,955	1,955
Donation	0	0	1,094	1,094
Other revenue	0	0	2,973	2,973
Total Revenues	330,298	349,347	347,806	(1,541)
Expenditures				
Bookkeeper	15,000	15,000	15,125	(125)
Business meetings, training	10,000	11,772	11,311	461
Fire run wages	110,000	104,934	105,385	(451)
Officers' wages	16,000	23,500	24,780	(1,280)
Dispatcher - traffic control	22,171	24,750	24,750	0
Payroll preparation	800	800	776	24
Payroll taxes	13,000	13,074	13,074	0
Gas and oil	4,000	4,871	5,285	(414)
Supplies-office	4,000	4,000	3,542	458
-other	4,500	4,500	3,708	792
Audit	3,200	3,300	3,300	0
Attorney	1,500	1,500	1,755	(255)
Medical exams	2,000	2,000	1,472	528
Telephone	2,000	2,000	1,811	189
Insurance	35,400	37,089	35,899	1,190
Pagers and cell phones	4,980	5,091	5,091	0
Utilities	10,200	11,695	11,476	219
Building maintenance	2,500	2,500	2,346	154
Vehicle maintenance	10,000	11,186	9,457	1,729
Equipment maintenance	9,000	14,076	14,357	(281)
Radio maintenance	3,500	3,500	3,290	210
Equipment check and housekeeping	2,455	2,455	2,000	455
Rent	16,692	16,643	16,643	0
Training	25,000	26,705	28,995	(2,290)
Miscellaneous	2,400	2,406	1,706	700
Small equipment	0	0	472	(472)
	330,298	349,347	347,806	1,541
Excess of Revenues over Expenditures	0	0	0	0
Other Financing Sources (Uses)				
Intergovernmental capital contributions	231,000	74,481	74,481	0
Interest	0	0	7,063	7,063
Other capital contributions for fire truck	0	0	6,810	6,810
Capital outlay	(231,000)	(74,481)	0	74,481
Total Other Financing Sources (Uses)	0	0	88,354	88,354
Net Change in Fund Balances	0	0	88,354	88,354
Fund Balance - Beginning of Year	387,145	387,145	387,145	0
Fund Balance - End of Year	\$387,145	\$387,145	\$475,499	\$88,354



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Executive Committee
Milan Area Fire Department
Milan, Michigan 48160

Dear Members of the Executive Committee:

We have audited the basic financial statements of the Milan Area Fire Department, Milan, Michigan, as of June 30, 2006 and for the fiscal year ended and have issued our report thereon, dated September 14, 2006.

In addition to the audit report, we offer the following comments and recommendations for your review and consideration.

Operating Expenses Billed

It was noted during our audit that actual operating revenues in the amount of \$352,790 exceeded the actual operating expenses in the amount of \$347,806. The Fire Department was under budget and therefore, the municipalities will be credited a total of \$4,984 to eliminate the excess of revenues over expenditures.

It has been a pleasure to serve you and we appreciate the cooperation we received during the audit. If you have any questions concerning the audit report or this letter, please contact us.

Very truly yours,

*Cooley Hehl
Wohlgamuth & Carlton*

September 14, 2006